

1812



1930

**Economic Conditions
Governmental Finance
United States Securities**



New York, July, 1930.

General Business Conditions

THE past month has witnessed a decided deepening of the feeling of discouragement about business, and probably at no time since the stock market collapse of last Fall has the average business man been more inclined to question his traditional faith in the recuperative power of the country. At the time of the market crash last Autumn the prevalent feeling was one of shock and fright, induced by the suddenness and severity of the decline, rather than any deep seated distrust in the fundamental structure of business. Hence, when the stock market crisis itself was past with less of visible damage than had been feared, there was a tendency to minimize the implications of the break. Deceived by the absence of certain usual symptoms of over-expansion in business, notably a rise in commodity prices, business quite generally concluded that inflation had been confined to the stock market and that the business structure itself was sound. Moreover, the prompt and energetic measures taken by the President to preserve confidence and maintain stability tended to sustain morale and foster the hope of an early recovery.

With this revival of confidence came the renewed boom in the stock market during the early months of the year, which carried representative stock price averages up over 40 per cent from their October-November lows, a movement in striking contrast with the behavior of foreign stock markets where prices showed little or no recovery from the Autumn low points.

That this belief in the imminence of business recovery was short-sighted is now evident. For a time, however, a speeding up of industry in certain seasonal lines, supplemented by the conscientious efforts of industrial leaders to carry through the Hoover program of stabilizing business, lent color to optimistic hopes, and so exuberant did the stock market become that some concern was felt for a time lest speculation should get out of hand once more as it did a year ago.

But gradually the true facts of the situation became effective, and as seasonal requirements were filled and business failed to follow through, it commenced to be realized that the economic maladjustments were more serious than had been supposed. With industry in general showing renewed tendencies towards curtailment, certain even of those industries which at the President's conferences had pledged themselves to large construction expenditures in support of general business found their revenues shrinking in such manner as to call for a revision of their original expansion programs. And, finally, with the falling off in business, came the further slump in commodity prices which, spreading to foreign markets, soon revealed the situation in its true guise as a reaction of world wide proportions.

All of which reacted with violence upon the stock market and prices during May and June crashed down once more to levels close to and in many cases substantially under their panic lows. Coming after the high hopes of the Spring this renewed weakness has proved a severe disappointment. Not only has it meant a new accumulation of losses for thousands of investors, but by virtue of the market's traditional role as a prophet of industry it has served to weaken public confidence. There is no question but that psychology is enormously affected by the market, and while it is true that in the long run the market will be guided by business, the two are mutually influential and tend to carry each other to extremes. Just as a year ago the booming stock market acted as an aid and stimulant to over-expansion, so at the present time the declining market tends to check enterprise and supplement the forces of recession.

Decline of World Trade

From most other quarters of the globe come reports of similar difficulties besetting trade and emphasizing the widespread character of depression. A year ago when business abroad was suffering from credit scarcity resulting from the constant absorption of world funds

by American speculation, the feeling was general that any sequence of events leading to a release of the stock market's grip on credit, and cheapening of money, would be bound to exert a constructive influence on world trade. So strong, indeed, was this feeling that when our stock market collapsed last Fall, carrying interest rates down with it, the first reaction in many quarters abroad was one of positive jubilation, and even in this country it was rather generally expected that the easing of money would lead to a revival of the American market for foreign securities, thus tending to promote foreign trade and mitigate the full severity of the depression.

It is now clear that this chain of reasoning was not well founded, and one reason for this was because it failed to recognize the essential interdependence of world trade. When depression struck the United States and impaired the purchasing power of this great market,—the greatest single market in the world,—the effects could not fail to spread all over the world wherever there are people producing goods for our consumption. Our diminished imports reacted unfavorably upon them and contributed to the fall of prices, resulting in a condition of distress in many of these countries more acute than in the United States where diversification of industry has tended to modify the extreme swings of business. Particularly is this true of countries like those of Latin America and Australia whose prosperity is so largely dependent upon raw materials. And as our business from them has fallen off, and their purchasing power been curtailed, their ability to buy from us has been correspondingly reduced.

Moreover, the world's productive capacity for most of the important raw materials and crude products has been enormously expanded since the war, and the pressure of these supplies upon world markets has been steadily increasing. In the May 1930 issue of this Letter we described at considerable length the extraordinary stimulus given to production of such commodities by the high prices prevailing during and after the war.

Supplementing all this increase in productive capacity under the impetus of high prices has been the recovery of European productive capacity after the war, the progress made in intensive agriculture and industry whereby output per acre and per man has been greatly increased, and the artificial stimulus resulting from Government efforts to foster home industries through bounties, tariffs, price control schemes and the like. So long as the momentum of prosperity persisted, this process of continuously expanding production could go on and business have the outward appearance

of well being, but in the end all things come down to an economic basis. Thus it is that world trade is now in difficulty, and the degree of disorder is reflected in the figures of international imports and exports.

In the accompanying table we give the comparative figures of the merchandise foreign trade of the United States by grand divisions for the first 4 months of this year and a year ago. It will be seen that both imports and exports are off about 21 per cent, with trade showing losses for all grand divisions. In general, however, it will be noted that the divisions showing the heaviest percentage losses are the great raw material producing sections, to wit, Asia, South America, Oceania, and North America (exclusive of the United States). While detailed figures for May have not yet been published, the aggregate totals do not suggest that the story will be materially different. Total imports aggregating \$285,000,000 were down 29 per cent from May a year ago, while total exports aggregating \$322,000,000 were down 16 per cent.

IMPORTS AND EXPORTS OF UNITED STATES BY GRAND DIVISIONS

	Imports From			Exports To		
	1929	1930	% Change	1929	1930	% Change
Europe	435	355	-18	820	693	-15
North America..	348	273	-22	476	378	-21
South America..	240	187	-22	202	128	-37
Asia	440	344	-22	236	179	-24
Oceania	24	12	-50	64	47	-27
Africa	46	31	-33	46	36	-22
Total	1,533	1,202	-22	1,844	1,461	-21

In like manner the trade statistics of other countries reflect, with a few exceptions, the general ebb of world business, as indicated by the table on the following page giving comparative figures for a number of countries for which recent data are available. In considering these totals, however, it should be borne in mind, of course, that the general level of wholesale prices is lower than a year ago.

The Decline of Prices

The most disturbing feature of the present situation is the fall in commodity prices which already has reached large proportions. For the month of May the index of wholesale prices in the United States computed by the Department of Labor stood at 89.1 per cent of the 1926 average, a decrease of 7 per cent from May 1929, and the lowest since September 1916, though still 27 per cent above the 1913 average. We have already referred in general terms to the world wide scope of this reaction, and the following table comparing various foreign and domestic price indexes now and a year ago indicates

**TRADE OF PRINCIPAL COUNTRIES FOR FIVE MONTHS
ENDED MAY, 1929 AND 1930**
(000,000 omitted)

		Imports		% Change	Exports		% Change
		1929	1930		1929	1930	
United States	Dollars	1,933	1,486	-23	2,230	1,733	-20
United Kingdom	Pounds	515	458	-11	360	303	-16
Germany	Marks	5,739	5,136	-11	5,454	5,307	-3
Japan	Yen	1,122	827	-26	856	631	-26
Canada	Dollars	552	453	-18	437	360	-23
*France	Francs	20,378	18,581	-9	16,414	15,579	-5
*Poland	Zlotys	1,113	773	-31	759	867	+14
*Sweden	Kronor	505	532	+5	432	446	+3
*Greece	Drachma	4,381	3,678	-16	2,931	1,755	-40
*Netherlands	Guilders	860	845	-2	620	594	-4
*Italy	Lire	7,723	6,078	-21	4,665	4,139	-11
*Norway	Kroner	327	337	+3	241	248	+3
*Switzerland	Francs	869	874	+5	672	623	-7
*Finland	Finmarks	1,899	1,396	-26	1,056	1,167	+11
*Belgium	Francs	11,093	11,366	+2	9,986	9,315	-7
*Austria	Schillings	999	898	-10	646	627	-3
*Czechoslovakia	Crowns	6,282	5,396	-14	6,013	5,719	-5
*Australia	Pounds	47	41	-13	59	49	-17
*Argentina	Gold Pesos	—	—	—	369	248	-33

* Four months.

more precisely the extent to which all markets have been affected:

WHOLESALE PRICE INDEXES OF LEADING COUNTRIES

(Based on pre-war gold values)

		1929		Per Cent Change	
		1929	1930	1929	1930
United States:					
Bureau of Lab. Stat. (550)	May	137	128	—	6.6
Bradstreets (96)	June 21	136	119	—	12.5
United Kingdom:					
Board of Trade (150)	May	136	122	—	10.3
Economist (44)	May	135	117	—	13.3
France (45)	May	126	112	—	11.1
Germany (400)	May	136	126	—	7.4
Italy (125)	May	132	114	—	13.7
Belgium (134)	April	124	112	—	9.7
Holland (48)	April	144	122	—	15.3
Sweden (174)	April	141	124	—	12.1
Switzerland (118)	April	140	129	—	7.9
Poland (73)	April	116	103	—	11.3
Czechoslovakia (69)	April	137	120	—	12.5
Austria (42)	April	134	119	—	11.2
Hungary (52)	March	136	100	—	26.5
Japan (56)	April	225	193	—	14.3
Egypt	April	120	101	—	15.8
Canada (238)	May	144	140	—	2.8
Peru	April	185	179	—	3.3
Australia	April	158	146	—	7.6
China (Shanghai)*	April	161	174	+	8.1

*Based on pre-war silver values.

Note—Number of commodities used in each index is given in parentheses where available.

So pronounced and universal a lowering of the price level as herein indicated naturally invites a great deal of speculation as to the cause, and the theory has been advanced that the present trend of prices may be influenced in part by the world gold supply which has not been increasing as rapidly of late as in former years. There is no evidence, however, that this is the case. Regardless of what effect prospective changes in the gold supply may have upon prices in the future, there is nothing in the present situation to indicate that the world has been suffering from a shortage of credit. In fact a more proper diagnosis would seem to be that it has had too much credit. While it is true that a condition

of credit stringency existed a year ago, this proceeded from the existence of an abnormal demand rather than a deficient supply, and there is reason to believe that had the gold reserves of the world been twice their actual size they still would have been unable to satisfy the speculative fever raging at that time.

As a matter of fact, no unusual explanation seems necessary to account for this phenomenon of falling prices, which apparently proceeds from natural causes as described in preceding paragraphs. It is commonly said that productive capacity is over-developed in all lines, but this is not strictly true, for there is no such thing as general over-production. There is no limit to the wants of mankind, and if production could be expanded in the right proportions the markets would go on clearing themselves and everyone would be a gainer. This is that condition of equilibrium which economists recognize as the foundation of true prosperity. The difficulty is that as business speeds up and develops into a boom inequalities creep in and upset the balance. Production concentrates too much, prices of some commodities rise more than others, and retail prices and wages, salaries and other forms of income lag in varying degree behind wholesale prices. Gradually the intricate machinery of production and distribution becomes clogged and has to slow down until the obstructive factors are corrected.

Once this corrective process begins everything goes into reverse, habits of buying change, and merchants withhold their purchases to the last possible moment, either from fear or from a desire to buy at the most advantageous levels. Stocks of goods, which at the peak of the boom seemed small and even scarce by reason of the artificially stimulated demand and the willingness of trade generally to buy and store freely, loom large as buying

drops off and the burden of carrying them is thrown back on producers. Prices fall by reason of the general paralysis of trade, and gradually the situation created by inflation begins to unwind, but the process is a painful and irregular one, for no beneficent and all-wise authority directs its course and the markets have to find their proper relation to each other through the free play of economic forces. In time, of course, the decline of prices will stimulate the resumption of business on a lower price basis, but here again the difficulty lies in the failure of all departments of the price structure to adjust themselves with equal promptness. It is a familiar fact that retail prices have always been slower to recede than wholesale prices, largely by reason of the element in the cost accounted for by wages and salaries which are the most resistant of all to pressure, and the present affords no exception to this rule. According to the National Industrial Conference Board, the index of the cost of living in the United States in May this year stood only 2 per cent under that of May a year ago, as against declines of 6 to 12 per cent in the general average of wholesale prices and considerably more than this in the case of numerous individual staple products and crude materials, some of which are back to or below pre-war levels. So long as such conditions of unbalance exist people cannot buy freely from one another, and business in general is bound to be handicapped.

Prospects for Recovery

How long it will take before the needed readjustments can be completed and trade and industry be in position to move forward once more on a sound and prosperous basis obviously cannot be foretold with certainty. Business pretty much the world over is sick, and it will serve the cause of revival better to face this fact squarely and with determination to take all necessary steps to eliminate the obstructive influences than to cherish an over-optimism as to the date and period of convalescence. At the same time it is just as necessary to preserve a balance against unwarranted pessimism and to take account of encouraging features of the situation.

For nearly a year the production of new manufactured goods in this country has been either declining or held in check at low levels. Meantime, the people have gone on wearing out their shoes and clothing, burning up gasoline and automobile tires, and using the old car much as before. Sooner or later the time must come when industry will have to speed up again to care for the wants of 120 million people, and the record of industry in this country does not contain many long drawn out depressions. As we pointed out in our last Bank Letter, such business recessions

as we have experienced during the past 30 years have usually passed the turning point some time during the year following the commencement of reaction, and while the rate of recovery sometimes has been slow at first it, nevertheless, has been steadily upward until normal levels were once more attained.

It is a familiar fact that consumption in times of depression does not fall off as rapidly as production, hence the assumption is warranted that progress is being steadily made in the reduction of surplus stocks. According to figures collected by the Federal Reserve banks, sales by 496 department stores in different parts of the country for the first five months of the year were only 3 per cent under the corresponding figures of a year ago, so that if allowance is made for the lower level of department store prices, it appears that the actual volume of goods distributed by these stores was close to or in excess of that a year ago. Similarly, the figures of instalment financing of automobiles, taken as an index of motor car distribution, make a good showing if used cars are included in the picture, for whereas the financing of new car purchases fell considerably under a year ago, that for used cars recorded an increase, so that the total fell off only 4 per cent in number and 12 in value as compared with the record year 1929. It is well known that stocks of new automobiles have been very greatly reduced and that the crux of the automobile situation lies rather in the used car market, hence an indication of improvement in the latter is distinctly reassuring. If these figures of department store and automobile sales may be considered typical of what is going on generally in the way of consumption, we may be nearer to the point where shortages will begin to accumulate than is commonly supposed. While it is true that the stocks of various raw materials are still unwieldy, this is not necessarily convincing for the reason that there is always a tendency for visible supplies to accumulate in times of reduced buying and falling prices. Once, however, prices are believed to have touched bottom and buyers step in to fill their requirements, it frequently turns out that there has been a dammed up buying power of sufficient volume to put a new light on the situation.

Much has been said as to the restorative influence of easy money, and possibly the potency of this factor has been somewhat exaggerated. Business must be healed of some of its ills and regain its will to recover before stimulants can be wholly successful. Nevertheless, a plentiful and abundant supply of credit, such as now exists, is bound to facilitate the process of readjustment. Up to this time, a difficulty has been that the ease of money has been unequally distributed as be-

tween the short time and the investment money markets, but with rates in the short time market where they are today, a gradually increasing overflow of surplus funds into investment channels seems assured, thus providing more favorable opportunities for the financing of long term capital expenditures.)

Present Industrial Situation

Indexes of production and trade of the moment continue for the most part to show up in an unfavorable light compared with the high levels of a year ago. Movement of freight on the railways during the four weeks ended June 14 was off 13 per cent from the corresponding period last year, with carloadings of merchandise and miscellaneous freight (usually considered indicative of shipments of manufactured products) down 10 per cent. Use of electric power in industrial establishments during May decreased 13 per cent from 1929, while factory employment and payrolls, as computed by the Department of Commerce from a representative list of reporting companies, were down 13 per cent and 16 per cent respectively from last year. The table below presents a comparison of these and other indexes of general manufacture and trade in May this year and in previous years.

While a decrease in the volume of factory employment during May is in accord with the normal seasonal tendency, the decline this year followed a less than normal increase during the Spring, with the result that indexes both of number of employed and payrolls reached new low points for the year, off 11 per cent and 16 per cent from the peak months of 1929. Prospects, moreover, point to a further reduction of working forces over the near term, since several important industries, including automobiles and textiles, have announced larger than usual curtailment for the mid-Summer period. On the other hand, seasonal expansion in construction work, agriculture, and outdoor industry generally, is tending to offset lessened operations in manufacturing lines.

The table on the following page comparing the factory employment data, by industries, in May this year and a year ago, indicates where the principal increases and decreases have occurred.

The Steel Industry

The production of steel during May amounted to 149,066 tons daily average, compared with 159,764 tons in April and 195,790 tons in May a year ago, decreases of 7 and 24 per cent respectively. For the year through May 31, cumulative output totaled 20,352,960 tons, against 24,121,000 tons in the corresponding period of 1929 and 21,050,000 tons in 1928.

That June figures will disclose a further shrinkage in production is indicated by the weekly estimates of mill operations which showed a decline to 65 per cent of capacity at the end of June, compared with 71 per cent at the end of May and 81 per cent at the year's high point reached in February.

About a year ago steel mill operations were running at 96 per cent of capacity, whence the rate of activity eased off in what was then looked upon as merely a seasonal decline, but which in reality proved to be the forerunner of the heavy fall in activity later in the year. Thus, it is worth noting that from now on this year comparisons will be with a gradually declining trend a year ago.

Present decline in steel production is partly seasonal, but reflects also the reduced requirements of the majority of steel consumers, including the railroads and the automotive and farm implement industries. Structural steel demand continues to hold up fairly well, the orders taken by fabricators in May amounting to 236,323 tons, an increase of 21 per cent over April, though a decrease of 17 per cent from May a year ago. The feature of the market, however, continues to be the heavy orders for oil, gas, and gasoline pipe, which are the largest on record and have provided the pipe makers with a fine business for months to come.

Despite conditions of general depression existing at the moment, steel makers continue to signify their confidence in the long term outlook by going ahead with their program of enlarging and rounding out plant facilities, and news of the month in this respect included plans for a new \$2,000,000 pipe plant for the Youngstown Sheet and Tube Company. Taking the steel industry as a whole total additional ingot making capacity now under construction and available within a year or less amounts to approximately 4,000,000 tons, an

	May, 1930	1929	Per Cent Change From May			
			1928	1927	1926	
Carloadings, Total*	914,000	-13.0	- 8.8	-11.0	-11.8	
Carloadings, Mds. & Misc.*	600,000	-10.9	- 8.8	- 8.4	- 8.7	
Electric Power Consumption.....	119.0	-13.1	- 1.4	+ 6.9	
Factory Employment	87.7	-13.1	- 5.7	-10.1	-12.1	
Factory Payroll Totals	87.6	-16.3	- 6.9	-12.2	-12.2	
Bank Debts, N. Y. C.**	37.4	-25.2	-17.2	+19.8	+40.6	
Bank Debts, Outside N. Y. C.**	24.6	- 7.5	- 6.8	+ 7.4	+14.9	

* Average Weekly.

** Billions of Dollars.

increment alone larger than the entire steel making capacity of many foreign countries.

EMPLOYMENT AND PAYROLLS IN SELECTED MANUFACTURING INDUSTRIES

U. S. Bureau of Labor Statistics (1926=100)

	Employment		Payroll Totals	
	May 1929	May 1930	May 1929	May 1930
General Index	99.2	87.7	104.8	87.6
Food and Kindred Prod.....	96.9	94.3	100.4	98.0
Textiles and Their Prod....	97.9	85.9	98.5	78.2
Iron and Steel and Prod.....	101.5	90.6	108.4	89.5
Lumber and Its Prod.....	89.0	73.2	91.3	72.2
Leather and Its Prod.....	89.3	85.8	85.1	73.1
Paper and Printing.....	99.9	99.6	105.8	104.9
Chemicals and Allied Prod. 97.4		93.0	101.9	97.0
Stone, Clay and Glass.....	89.9	79.1	90.1	75.5
Metal Products, Non-fer.....	100.8	82.1	109.1	78.5
Cigars and Cigarettes.....	93.2	91.9	91.8	87.0
Automobiles	133.0	97.5	143.1	98.9
Car Building and Repairing 85.8		77.7	95.5	82.3
Agricultural Implements....	131.6	114.7	140.1	102.8
Electrical Machinery.....	118.0	105.1	123.1	110.9
Automobile Tires	114.7	85.3	119.4	89.8
Shipbuilding	108.6	118.0	112.0	125.9

Building and Automobiles

Building contracts, which are being watched carefully for signs of an upward trend in the construction industry, were disappointing in May, in that the total awards showed somewhat more than the customary seasonal decline, and were 22 per cent under May, 1929. The first three weeks of June, however, showed an encouraging increase, and the daily average ran 9 per cent ahead of May this year and only a little more than 6 per cent below the June, 1929 total. The following table from the F. W. Dodge Corporation reports indicates the comparative figures for the first three weeks of June by types of construction:

DAILY AVERAGE OF CONTRACTS

	June 2 through June 20, 1930 (17 Business days)	Month of May, 1930 (Basis of 25 days)	Month of June, 1929 (Basis of 25 days)
Residential	\$4,203,900	\$4,662,700	\$6,952,300
Non-Residential	9,983,100	8,237,400	9,409,700
Pub. Wks. & Util.	5,693,000	5,396,500	4,833,600
Total	19,880,000	18,296,600	21,195,600

Thus it will be seen that slack in residential building continues to hold down the total, as other classifications make a comparatively good showing.

Automobile production after increasing steadily from January through April declined 5.4 per cent during May. While this drop from April was no more than seasonal the loss from last year's record levels continued large, amounting to 30 per cent. Taking the year through May 31st, production amounting to 1,883,616 vehicles was down 30 per cent from last year, but 4 per cent above 1928. With registration by new car purchasers running only 20 per cent under last year, and sales of used cars showing an increase, fundamental conditions in the industry are undergoing gradual improvement. As in the past, public

demand has favored the minimum price field, recently enlarged by the addition of the Chrysler Plymouth model, on which new low prices were established this Spring.

The Situation in Agriculture

In agriculture, the situation is characterized by favorable crop prospects but unfavorable prices. Grain crops have had a good start and are coming fast. Winter wheat was estimated by the Government as of June 1 at 532,000,000 bushels, a decline of 46,000,000 bushels from last year, but only slightly below the five-year average. Spring wheat has not yet been officially estimated, but private reports placed the probable total in the neighborhood of 245,000,000 bushels against 228,000,000 last year, and 260,000,000 for the five-year average.

Cotton likewise is not far enough along at this season to warrant an official forecast, but acreage is down only 2 to 3 per cent from last year, and the prevalent opinion seems to be for a crop in the neighborhood of 15 to 15½ million bales.

None of these crops is excessively large, and under normal conditions they should be absorbed without undue disturbance of the markets, but unfortunately conditions this year are not normal. Business over the world is depressed and consumption is on a restricted basis. During the current season world takings of American agricultural products have been unusually light, with the result that the carryover of the principal crops promises to be large, and apprehension is felt that total available supplies will prove burdensome under the conditions. Hence the sensational weakness of prices which carried cotton under the 13 cent level for the first time since January, 1927, and July wheat to 87¾ cents with corresponding weakness in other grains. Following is a table comparing prices of principal agricultural products at the close of June this year and a year ago:

	End of June	
	1929	1930
Cotton, July, New, N. Y.....(per lb.)	18.13c	13.52c
Wheat, July, Chicago.....(per bu.)	\$1.11½	91¼c
Corn, July, Chicago.....	" "	91¼c 75¼c
Oats, July, Chicago.....	" "	43¼c 35¼c
Rye, July, Chicago.....	" "	86¼c 48¼c
Butter, Extra Creamery, N. Y. (per lb.)	43¼c	33 c
Steers, aver. of good, Chicago (per lb.)	14.32c	11.29c
Hogs, heavy, Chicago	10.75c	8.95c

Low prices for agricultural products unquestionably add to the uncertainty regarding outlook for business this Fall. At the same time it must be remembered that the crops are not all made yet, and a good deal can still happen to the crops in this country and abroad that would change the situation materially. Already the European crop outlook is considerably less favorable than a year ago. Practically all markets have been so permeated with bearishness that it probably would not take

much in the way of a crop scare or improvement in the consumption outlook to bring about some rebound from the low prices. It will be recalled that only a little over a year ago in May, wheat was selling below a dollar a bushel, and within two months, due to the growing realization of the crop shortage in Canada, it had risen to \$1.50.

It is true also that low prices, once they have reached the point of stability, tend to increase consumption, particularly in countries where the populations subsist on a narrow margin of incomes over expenditures. Thus it will be recalled that the cotton goods industry all over the world had a big year following the drop in prices after the bumper crop of 1926. Moreover, costs of production on the farms are declining with the growing use of machinery, and this year in particular will be lower by reason of cheaper farm labor. In some parts of the South wages for negro labor in the cotton fields are reported to be half of what they were a year ago. All of which, together with good yields and declines in non-agricultural prices, which sooner or later are likely to be translated into retail prices of articles the farmer must buy, should modify in a measure at least the disturbing effect of the fall of prices.

The New Tariff Act

The revision of the customs tariff upon which the Congress has been engaged for approximately one and a half years is completed, and the new measure has become law. Not a few persons have disapproved of it so heartily that they hoped the President might veto it, but as our government is organized and considering the relations between the Chief Executive, and the political party which shares with him the responsibility of power, this could be hardly expected. President Cleveland, faced with a tariff bill radically different from his recommendations, met the dilemma by permitting it to become a law without acting upon it.

The law unquestionably is unpopular, for nearly everybody who has given any attention to it either has failed to get into it all that he wanted or is displeased over some of the contents. Nevertheless, the law itself is not so bad as the experience of getting the revision. For nearly a year and a half hearings, proposals and arguments on the subject have figured in the news of the world. Not only have many of our industries and lines of trade been in a state of suspense but industries and trades of many countries have been deeply involved. The employment and livelihood of thousands of workers have seemed to be dependent upon the terms of the bill. Every disturbing proposal has not been enacted, but naturally the worst have had the greatest

publicity, and the effects of that publicity have made an impression more or less lasting, even though many of the objectionable proposals were eliminated. Almost every country of any importance in trade has been aroused to the point of making representations, either officially or through trade bodies, concerning features of the measure which were thought to threaten harm to its industries.

The full effects of the new tariff on American industry and foreign trade of course cannot be measured with accuracy until it has been in operation for a reasonable period of time under more nearly normal economic conditions than prevail throughout the world at present. In its final form the bill is not so bad as may be popularly supposed, and the important fact to the public at large is that the uncertainty has now been settled, for the time being at least and perhaps for several years. Unquestionably this was preferable to having the present bill blocked and then having Congress again start in at the beginning of the long drawn out and disturbing process of drafting another bill.

There was a fairly general increase in rates, and duties on certain commodities were marked up to levels that may be excessive and unwarranted, but on the other hand a very considerable portion of the hundreds of increases are inconsequential for the reason that only negligible amounts of such goods are imported. Because the Act is highly complex, it is difficult to analyze the increase in effective duties for imports as a whole, but the Tariff Commission has made a preliminary estimate that the average duty on all imports will be approximately 16 per cent. This is moderately higher than the former Act of 1922 but lower than the rates in effect before 1913 and going back to 1890. Following are the Tariff Commissions' calculations of average duties collected on all imports under the various tariff acts during the past forty years, together with the estimated proportion of imports that come in free of duty.

ESTIMATED DUTIES ON ALL IMPORTS AND PROPORTION OF FREE IMPORTS UNDER AMERICAN TARIFFS ACTS, 1890-1930

Date Enacted	Average Duty on All Imports Per Cent	Average Imports Free of All Duty Per Cent
McKinley Tariff Act.....	1890 23.0	52.4
Wilson-Gorman Tariff	1894 20.9	49.4
Dingley Tariff Act.....	1897 25.8	45.2
Payne-Aldrich Tariff	1909 19.3	52.5
Underwood Tariff Act.....	1913 *6-14.8	*60-73
Fordney-McCumber Tariff..	1922 13.8	63.8
Hawley-Smoot Tariff	1930 16.0	61-63

*Relative amounts disturbed by war conditions.

The Tariff Commission further states that the increases have been largely directed to the interest of the farmer, and that 93.7 per cent

of the increases are upon products of agricultural origin measured in value, as distinguished from 6.3 per cent upon commodities of strictly non-agricultural origin. The average rate upon agricultural raw materials is said to represent an increase from 38.1 to 48.9 per cent in contrast to an increase from 31.0 to 34.3 per cent on dutiable articles of strictly other than agricultural origin.

If, after the importers and exporters of the United States and foreign countries have operated under the new schedules for a time, it is found that certain items are too far out of line, the Act itself through the "flexibility clause" provides a method by which the President and the Tariff Commission may correct such rates. Entitled "An Act to Provide Revenue, to Regulate Commerce with Foreign Countries, to Encourage the Industries of the United States, to Protect American Labor and for Other Purposes," it is apparently the best that could be enacted under the circumstances and business may be expected to put forth its best efforts to win and hold world markets under the new bill as it has done under the old. It would be unwise to minimize the possible unfavorable effects of foreign agitation, reprisals, etc., yet it may be reassuring to remember that, even in the past, foreign customers have not bought imported goods from this country or any other country because of patriotic reasons but because the goods were better than could be procured elsewhere, or were cheaper, or because credits were available for financing such purchases.

Money and Banking

The unusual state of ease prevailing in the money market during June led to a further reduction in the rediscount rate of the Federal Reserve Bank of New York to $2\frac{1}{2}$ per cent, the lowest rate ever established since the founding of the Federal Reserve System and the lowest in effect at any central bank in the world with the exception of the Bank of France which also has a $2\frac{1}{2}$ per cent rediscount rate. The Federal Reserve Banks of Boston, Chicago, and Cleveland have cut their rates to $3\frac{1}{2}$ per cent, while the remaining eight banks are still on a 4 per cent basis.

Interest rates on call loans and renewals to brokers were successively reduced during the month from 3 per cent down to $1\frac{1}{2}$ per cent, while time money against securities was available at $2\frac{1}{2}$ per cent for periods up to 90 days. Commercial paper was marked down another quarter to $3\frac{1}{4}$ @ $3\frac{1}{2}$, with some very high grade names reported as sold at 3 per cent, but the supply of this class of paper is limited. Prime bankers' acceptances are quoted at a discount of 2 bid— $1\frac{1}{8}$ per cent asked for ma-

turities up to three months, the lowest in American history.

In keeping with the marked reduction in reserve bank and open market rates, the New York Clearing House Committee voted on June 24 to lower the interest rates that member banks are permitted to pay on deposits.

Short term funds have been steadily growing cheaper in the New York market during the past several months as they were released by the liquidation of secured loans and the slowing down of industry and trade. Non-secured loans of the weekly reporting member banks of the Federal Reserve System, usually regarded as representing commercial borrowing, reached their high point on November 20, 1929, when they amounted to \$9,871,000,000 since which time they have had an almost continuous decline to \$8,402,000,000 on June 11 last. This is a decrease of \$1,469,000,000 from the high point and approximately \$500,000,000 from the early months of the current year, whereas the normal seasonal tendency in the Spring should be upward.

The drastic decline of commodity prices has of course been a factor in this decrease of loans, in that less credit is required to carry goods purchased at lower prices and that manufacturers and dealers are inclined to reduce their inventories to a minimum in times of falling markets. Some of the decrease may also be attributed to the repayment of bank loans from the proceeds of the large volume of new bond issues underwritten this year. In the week of June 18 the total of these non-secured loans turned up sharply, the increase amounting to \$111,000,000.

Following is a summary of the important items in the latest combined statement of the weekly reporting member banks, together with a comparison with the statement of a year ago:

WEEKLY REPORTING MEMBER BANKS (In Millions of Dollars)

	June 19, 1929	June 18, 1930	
Secured loans	\$ 7,382	\$ 8,615	+ \$1,233
Non-secured loans	9,161	8,513	- 648
Total loans	16,543	17,128	+ 585
Government securities.....	2,935	2,849	- 86
Other securities	2,820	3,140	+ 320
Total investments	5,755	5,989	+ 234
Loans & investments..	22,298	23,118	+ 820
Demand deposits	12,940	13,638	+ 698
Time deposits	6,724	7,228	+ 504
Government deposits	260	213	- 47
Total deposits*	\$19,924	\$21,079	+ \$1,155
Rediscounts with F.R.B....	674	44	- 630

* Except due to and due from banks.

The large increase shown during the year in bank loans secured by stocks and bonds, amounting to \$1,233,000,000 according to the statements for all the member banks combined, perhaps calls for some explanation in view of

the substantial decline that has occurred in the level of stock prices during the same period. This item of secured loans includes "brokers' loans" made by the member banks, but it must be remembered that brokers also borrow from lenders other than banks and that the speculative expansion last Summer was financed by such funds to a very considerable extent. Attracted by high rates for call loans, there was a huge flow of funds dispatched to Wall Street by corporations and individuals, private banks and foreign interests, etc. to be loaned direct in competition with banking funds.

At the time of the stock market panic last Fall a large part of these loans by outsiders was called for repayment, and further amounts have been called since, due to the low interest rates, so that a substantial part of these loans has had to be taken over by the banks. At the high point last October such loans handled by New York banks for the "account-of-others" amounted to \$3,941,000,000, in addition to which the monthly report on borrowings by members of the New York Stock Exchange showed on October 1 the sum of \$1,472,000,000 in borrowings other than those made from or through New York banks, represent loans from private bankers, foreign interests and from one Stock Exchange firm to another. These amounts have now been reduced to \$939,000,000 and \$609,000,000, respectively, and the combined decrease of approximately \$3,800,000,000 is an offset to the increase of \$900,000,000 in member bank collateral loans during the same period.

These conclusions are fully substantiated by the results of a more careful study of the decrease in all known security loans recently given out by Dr. W. Randolph Burgess, Deputy Governor of the Federal Reserve Bank of New York, who stated that the total of currently reported security loans had decreased from \$14,601,000,000 at the beginning of October to \$10,674,000,000 by the middle of June. This represented a liquidation of \$3,927,000,000, or 27 per cent. In the same period the weighted stock price index of the Standard Statistics Company declined by 28 per cent. Considering the fact that a sizeable part of these loans arise in connection with the underwriting and distribution of bonds, it is clear that the liquidation of secured credit has been fully commensurate with the decline in stocks. With a slack demand at present for commercial accommodation, and a tendency for large scale business to finance itself by means of stock and bond issues instead of through bank borrowings, it is a reason for neither concern nor surprise that secured loans of the banks have shown an increase. On the contrary, the fact that these loans are now within the control of the banking system rather than in the hands of individual lenders leaves the situation more

secure than when a huge volume of these loans was outside the banks, yet hanging over them as a constant threat.

As the funds loaned direct were called for payment, the burden of taking them over fell mainly upon the New York banks, and the proportion of their assets in the form of secured loans is now somewhat higher than the average for banks throughout the country as a whole. In some quarters this has given rise to a hasty inference that a disproportionate share of their resources are tied up, in one way or another, in the market, with the implication that their liquidity has been thereby impaired. Such an inference is not well founded, as may be seen from the following summary prepared by the Federal Reserve Bank of New York, which shows the distribution of assets of the reporting New York City banks on June 25.

	Amount	Per Cent
Cash and reserve with Federal	\$ 837,000,000	9.2
Demand loans to brokers.....	1,321,000,000	14.5
U. S. Government securities....	1,113,000,000	12.2
Commercial loans	2,462,000,000	27.0
Time loans to brokers.....	443,000,000	4.9
Security loans other than brokers loans	1,932,000,000	21.2
Investments other than U. S. Government's	958,000,000	10.5
Total.....	\$9,066,000,000	99.5

Against their deposits and capital funds, the total of which was approximately \$9,100,000,000, New York banks held total demand and time loans to brokers, and secured loans to all others, together with all investments other than United States government securities amounting to \$4,563,000,000, or approximately 51 per cent. Their holdings of government securities, amounting to \$1,074,000,000 could be borrowed against at the Federal Reserve Bank, and they hold \$2,404,000,000 in commercial loans, of which not far less than \$1,000,000,000 may be fairly assumed to be eligible for rediscount, making a total of around \$2,000,000,000 additional funds that would be readily available should the need arise. This, of course, is exclusive of call loans which, except in rare instances, are available as liquid funds.

Federal Reserve Bank Operations

Next in importance to the establishment of a record-low rediscount rate by the Federal Reserve Bank of New York is the recent resumption in buying of government securities by the reserve banks, a policy that contributes to the ease in rates by putting reserve bank credit into the market. Successive increases in the past four weeks have raised the government bond account from \$528,000,000 to \$598,000,000. Such a policy at a time when the member banks in the larger cities are borrowing little or nothing from the reserve banks encourages a flow of surplus

funds into the bond market as the only remaining channel of investment offering a fair rate of return. Member banks have already been engaged in replenishing their bond accounts that they had been forced to liquidate in meeting the abnormal loan demands last year, and it will be seen from the tabulation of the reporting member bank statements that investment holdings are now \$234,000,000 higher than on the same date last year, though still \$226,000,000 below the corresponding date two years ago. Further improvement in the bond market should be a favorable influence on business enterprise and, through its loosening of long-term interest rates, should assist in the revival of new building construction which is dependent upon the mortgage market.

Money Conditions Abroad

Except for a slight firming of open market rates early in the month, there was no significant change in the European money situation during June. The German Reichsbank was the only central bank which reduced its discount rate (from $4\frac{1}{2}$ to 4 per cent on June 21, the day following the New York reduction). With the New York and Berlin rates down and the Reparation loan out of the way, there is the possibility of a further reduction in the Bank of England rate to $2\frac{1}{2}$ per cent.

The Bond Market

The two outstanding events in June, from a bond market standpoint, have been the flotation of the long-awaited German Government issue, and the reduction of the rediscount rate of the Federal Reserve Bank of New York.

The German issue consisted of \$98,250,000 in $5\frac{1}{2}$ per cent, Thirty-Five-Year Gold Bonds, which were offered at 90 to yield 6.20 per cent to maturity. This issue was part of the German Government International $5\frac{1}{2}$ per cent Loan of 1930, floated simultaneously in several different countries, and amounting in all to approximately \$300,000,000. The principal amounts offered in the other countries included: France, 2,515,000,000 francs; Great Britain 12,000,000 pounds sterling; Holland, 73,000,000 florins; Sweden, 110,000,000 kronor; Switzerland, 92,000,000 Swiss francs; Germany, 36,000,000 reichsmarks; Italy, 110,000,000 lire; and Belgium, 35,000,000 belgas.

This loan represents the first step in the commercialization of the German reparation payments. Two-thirds of the proceeds of the loan will be paid to the Bank for International Settlements for the account of the various Creditor Powers as a capitalization of part of the unconditional annuities payable by Germany under the Young Plan. The remaining one-third of the proceeds will be used by the German Government to provide for require-

ments of the German Railway Company and the German Post Office and Telegraphs.

Aside from the large German issue, bond offerings in June have been considerably smaller than for some months past, the total through June 25 being approximately \$444,000,000 as against \$606,000,000 for the full month of May. Foreign offerings, including the German Loan, have accounted for \$178,000,000 or about 40 per cent of the total, while the volume of new railroad, public utility and domestic municipal issues has been considerably smaller than the corresponding totals for May.

Chiefly as a result of the unsettlement in the stock market, bond prices have been somewhat softer during the past month. High-grade issues have held relatively firm, the declines being most apparent in the case of second-grade and convertible issues. On the other hand, liquid short-term investments, such as bankers' acceptances and United States Treasury certificates, have continued to advance in response to further reductions in short-term interest rates.

The reduction of the rediscount rate of the New York Federal Reserve Bank to $2\frac{1}{2}$ per cent serves to accentuate the unusually wide spread now prevailing between short-term money rates and the yield on high-grade bonds. This situation may be seen from the table below which compares present yields (as of June 24th) on short-term investments with the yields now shown by a list of representative long-term bonds.

SHORT-TERM INVESTMENTS

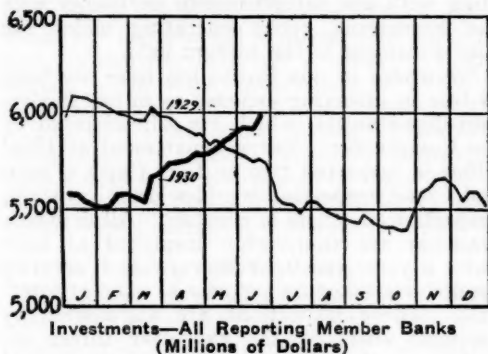
	Yield to Maturity
90-day prime bankers' acceptances.....	2.00—1.87%
4-6 months' commercial paper (best names)	3.25—3.50
U. S. Treasury Certificates.....	1.69—2.68

REPRESENTATIVE LONG-TERM BONDS

Issue	Price June 24th	Yield to Maturity
Domestic Bonds:		
Baltimore & Ohio 1st 4s, 1943.....	94%	4.40%
Standard Oil Co. (N. J.) 5s, 1946..	103	4.73
Cons. Gas of N. Y. deb. $5\frac{1}{2}$ s, 1945	106%	4.92
Detroit Edison Ref. 6s, 1940.....	107%	5.04
Standard Milling Co. $5\frac{1}{2}$ s, 1945.....	102%	5.21
Postal Telegraph & Cable 5s, 1953	91%	5.64
Gen. Motors Accep. Corp. 6s, 1937	101%	5.73
Foreign Dollar Bonds:		
Kingdom of Denmark $4\frac{1}{2}$ s, 1962....	92%	4.97
Kingdom of Japan $5\frac{1}{2}$ s, 1965.....	90%	6.14
German General Electric 6s, 1948..	94%	6.48
Republic of Chile 6s, 1960.....	89%	6.83
Kingdom of Italy 7s, 1951.....	98%	7.15

It will be observed that the spread between the bankers' acceptance rate and the yield on seasoned domestic bonds of medium and long-term maturities ranges from $2\frac{1}{2}$ to $3\frac{3}{4}$ per cent in favor of the latter. In the case of foreign dollar bonds the spread ranges from 3 to 5 per cent, while for speculative issues the prevailing spread is even wider.

The rapid liquidation of secured and unsecured loans since last Fall has made available for investment a steadily increasing volume of funds in the hands of banks and other large institutional investors. This condition has been reflected in a marked gain in investment holdings by the weekly reporting member banks of the Federal Reserve system. As shown by the chart below, total investments of reporting member banks have increased by approximately 475 million dollars, from Jan. 1, 1930 to date as against a decline of about 620 million dollars during the corresponding period in 1929.



Accompanying the further reductions in short-term interest rates, this buying of investments has become accelerated and total holdings of the reporting member banks show a gain of 100 million for the first three weeks of June.

It is apparent that the banks have sought primarily to invest their surplus funds in short-term liquid paper. This has practically absorbed the available supply of this type of investment and reduced the yields to so low a point that the banks are now likely to turn more and more to the purchase of longer-term bonds. This situation, coupled with the recent slackening in the volume of new issues, makes the outlook for the bond market particularly favorable at the present time.

Statement of Mr. Mitchell Before House Committee on Banking and Currency Considering Branch, Chain and Group Banking

In accordance with an invitation extended to him by the House of Representatives Committee on Banking and Currency to discuss the subject of branch, chain and group banking, and the activities and policies of The National City Bank of New York, Mr. Charles E. Mitchell, Chairman, appeared before the Committee on June 11. It is believed that our shareholders and clients alike will be interested in the statements made by Mr. Mitchell and accordingly we are reproducing herewith in full his formal statement to the Committee,

together with such excerpts from the interrogations and answers as may also be of interest.

Following is the complete text of Mr. Mitchell's statement:

"You have invited a statement from me in regard to the operations of The National City Bank of New York and its affiliated companies, as well as the Bank's or my own views on the subject of branch, chain and group banking.

"Let me say at the outset that while The National City Bank of New York is extensively engaged in branch banking, both at home and abroad, under the provisions of existing laws, it has no interest, direct or through affiliated companies, or in any other manner, in any group or chain of banks.

Organization of National City Bank and Affiliates

"Our form of corporate organization comprises three separate institutions: The National City Bank of New York, which is a national banking association operating under the laws of the United States; The National City Company, which is a business corporation organized under the laws of the State of New York; and the City Bank Farmers Trust Company, formerly The Farmers' Loan and Trust Company, which is a trust company operating under its special charter and the Banking Laws of New York State. These three institutions operate independently of each other in their respective fields, but all three are affiliated by the manner in which their stock is held, so that, in effect, one body of shareholders owns them all. To be more explicit, all of the stock of The National City Company, and all, except Directors' shares, of the stock of the City Bank Farmers Trust Company, is held by Trustees for the equal and proportionate benefit of all holders of shares of stock in the Bank. Each shareholder in the Bank has a stock certificate which carries endorsements evidencing his proportionate beneficial interests in the capital stocks of The National City Company and the City Bank Farmers Trust Company, respectively, and he receives from time to time checks for his proportionate part of the combined dividends paid by all three. The 5,500,000 shares of stock of the Bank outstanding are held by more than 65,000 shareholders.

Extent Now Engaged in Branch Banking

"The Bank is now operating 42 branches in the City of New York. At each of these a full banking service is rendered to the community served. It is our policy to open additional branches in the City from time to time, as the extension of our business, or the growth of this or that district, seems to require. Urban conditions of life and business, seem to us to call for this continuous development of our branch facilities throughout the City. We find them profitable, and easy to manage.

"As permitted by the laws of the United States, the Bank also operates abroad, directly or indirectly, 98 branches in 23 countries. These branches are established at natural centers or cross roads of commerce throughout the world, and, in the main, serve American trade and commerce in the countries in which they are situated. In the scope of their banking business they are careful to preserve the amenities and avoid friction with the local banks, it being our policy to consider ourselves as a guest in the foreign countries which we enter.

City Bank and Its Affiliates

"The National City Company is the investment banking affiliate engaged in the analysis of corporate and government finance, underwriting and the purchase and sale of investment securities. It conducts its business through its head office in New York and 69 offices located in the United States and abroad.

"The City Bank Farmers Trust Company is the fiduciary affiliate and is engaged in the handling of trusts and the performance of trust functions of all kinds. When its affiliation with The National City Bank of New York was effected in 1929, its commercial banking business was taken over by the Bank, while, on the other hand, the Bank turned over, and is continuing to turn over to it, so far as the necessary consents of interested parties can be obtained, the trusts and trust business in which The National City Bank has been previously named.

"Prior to affiliation with The National City Bank of New York, The Farmers' Loan and Trust Company had acquired jointly with the Central Union Trust Company, now the Central Hanover Bank and Trust Company, the ownership of the First National Bank of Palm Beach and the Central Farmers Trust Company of West Palm Beach, Florida, both of which are small but sound and successful local institutions. The purpose was the development and extension of trust business.

"Our form of operating organization is generally as follows:

"The Chairman, according to the By-Laws, is an operating official and the chief executive officer of the Bank and of each of its affiliates. The National City Bank of New York, The National City Company and the City Bank Farmers Trust Company, each has its President. The Chairman and these Presidents are permanent members of the Executive Committee of the Bank, on which Committee, members of the Board of Directors of the Bank rotate in office. While there are officers of the Bank that perform general duties, there are also Vice Presidents whose responsibilities relate directly to a given territory, this applying to the United States, to divisions of the Greater City of New York, and to the foreign

fields. In Branch operation the Vice President in charge of a given territory has under him certain officers with executive titles, and a group of managers, each handling a separate office.

Rigid Control and Inspection

"The control of foreign and domestic branches is generally similar. In New York City, however, a single Vice President is constantly in touch with the Managers of Branches within his group, while abroad, a double control exists, one managerial group under a Vice President at Head Office cooperating with and interchanging personnel with the managerial group operating under the Vice President in the foreign field.

"Nowhere in our institution have we been as free in incurring expense as in our inspection departments, which are administered by the Comptroller. Every department at Head Office is inspected two to four times a year, and Credit inspection world-wide is constant. Inspection of trusts is constant. All domestic branches are thoroughly inspected at least twice a year, and 'spot surveys' and 'security counts' are taken by surprise at shorter intervals. These inspections are augmented by frequent visits by the executive forces attached to the Vice President in charge of specific groups. In addition to all this, the Comptroller of the Currency makes an inspection of Head Office and domestic branches twice a year and of foreign branches at irregular intervals, and the Examiner of the New York Clearing House makes his inspection at least once yearly.

"Institutionally, we take no firm position as favoring unit, branch, group or chain banking. We cannot, however, be blind to the fact that while unit banking as a sole system has played a prominent part in the development of our country, and still has its ardent adherents, there is a very definite trend away from it, a trend that is fostered not by individual authorities but by public interest.

Right Type of Banking for United States Will Develop from Popular Demand

"It is to be expected that as time goes on and the public has tested these varied types of banking, the right kind of banking for this country will develop from popular demand. The National City Bank of New York will adapt itself to the developments.

"It is our observation that while national feeling in the United States is second to none existing anywhere else in the world, local civic and neighborhood pride and desire for autonomy is prevalent throughout the United States to an outstanding and exceptional degree. We feel that this must be taken into consideration as the trend in banking develops, and that while in the ultimate what-

ever system best serves the public interest will doubtless be adopted, it is important that no banking trend should be forced by precipitate legislation, either permissive or restrictive. The development should be no more rapid in any direction than is sanctioned by the gradual change of public feeling.

"Frankly, it would seem clear that the small unit banks for outlying and rural districts have as a system outrun their exclusive position of popularity. Such banks must be operated cheaply but manifestly cannot be operated as cheaply and at the same time as safely as a system of them which is supervised by experienced and capable bankers. Age, experience, training, a wider view and contact with larger affairs, are of value in supervision, but of less importance in the routine of a small bank. It always has been claimed for the locally owned unit institution that it was more responsive to the wants of the community than a branch of a larger institution, with headquarters elsewhere, would be.

Safety a Prime Essential

"Doubtless, there is something in the argument, but it works both ways. The most important of all considerations in valuing the services of a bank to a community is that it shall care for the funds entrusted to its custody in such manner that they shall always be safe and ready for return to the depositors on demand. There is such a thing as a banker being too responsive to local applications and too much under the influence of local and personal appeals. The fact that a local banker is under greater pressure from local borrowers than a branch manager, supervised by an outside authority, may cause the interests of depositors to be imperiled for the accommodation of borrowers; indeed, the record of failures proves this to be frequently the case. Every period of boom times has had many bank failures in its wake, because the local bankers were under the same influences and affected by the same psychology as their customers.

"Branch Banking where permitted by law, and Group Banking in part as a substitute where Branch Banking is not permitted, and a combination of these developments sometimes working hand in hand, is gradually but assuredly taking hold alongside of the old unit system. The development has come about not by the establishment of new banks to compete with the old nor by aggressive action from large financial centers. It has been largely due to local conditions where the opportunity existed for constructive reorganization. It is well that this movement is gradual, as it is educational to a public that is primarily interested in banking service. It is not a movement to be feared. Banking is not a

business which can be monopolized. The idea that local money or capital will be drawn away from the small towns to the large cities and that local needs will go uncared for is unwarranted. It is not at all likely that money will be drawn from a higher to a lower market, and since money is usually cheaper in large centers than in the outlying districts, closer relations between the two are most likely to result.

No Danger of Monopoly

"There will be no monopoly. The local fields will always be free and open for the establishment of locally owned banking institutions, and if they are capably managed and worthy of confidence they will be able to maintain themselves in the competition for local business. They will always have the best of the argument, certainly if the institution of outside ownership does not afford satisfactory safety or accommodation to deserving customers. That broad banking accommodation can be satisfactorily extended to outlying districts with comparatively small operating costs, and with expert supervision provided by an overhead organization which covers numerous offices, would seem to be assured by experience.

"It should be borne in mind, however, and the importance of it is so vital as to justify repetition, that the normal banking development which has occurred in a natural and orderly way in most other countries has been discouraged and restricted in this country, and this fact creates a danger of a hasty, competitive development and one that will be publicly resented in case all restrictions are taken off at once. It is undoubtedly best that we gain experience gradually, with legislation keeping pace therewith. No reasonable objection, however, from the standpoint of public interest can be offered to the extension of the Branch Banking privilege for State and National Banks alike beyond the present restricted areas. If such a development gives to the public a safer and better banking service, the demand for a further extension of power will come from a convinced public and the development will be a normal and accepted one.

Present Limits of Desirable Legislation

"How far immediate legislation should go in advantageously extending permissive powers for branch banking is a difficult problem. The trade area suggestion appears to me at present too broad in its scope. The suggestion of extension to County or to State lines seems artificial. The expansion to Federal Reserve Districts extends the territory to an unwarranted degree under existing circumstances, and furthermore is filled with impracticabilities owing to the fact that the districts themselves

do not represent either trade areas or spheres of natural banking relationships. My one suggestion would be that legislation should be such that under the carefully given permits of the Comptroller's Office the limitations of branch banking be extended to a somewhat larger field in the immediate vicinity of our cities, allowing the experience of this extension to be the guide in future legislation.

"I feel that Group Banking is playing a most important role in what may be a real trend from unit banking at the one pole to widely practiced branch banking at the other. Where well managed, the groups seem to be satisfying the needs of the public which they serve. That they lack the flexibility, the effectiveness and the economies of the branch system is obvious. As a measure of prudence, I feel that the holding companies should be under the inspection powers of the office of the Comptroller of the Currency.

"In every country of the world that has attained financial maturity, there is, so far as I know, a unified banking system operating under one set of national laws. The situation must necessarily be very different in the United States with our separate national and state jurisdictions. But wherever possible, through uniform state laws, and wise development of Federal Reserve legislation, the benefits of uniformity in the laws governing banking should be secured to the people."

Excerpts from Transcript of the Hearing

Upon completion of his formal statement, as is customary with the Committee, a more general field was opened for discussion. Following are some excerpts from the transcript which appear to be of general interest:

Mr. Goldsborough: Now, have you any opinion as to the justification for chain banks?

Mr. Mitchell: The one argument against chain banks is that under a lax or improper control there may be introduced a weakness, with perhaps one bad situation in the chain, bringing a collapse like a house of cards. I have always doubted whether chain banking added anything to the strength of the general banking situation.

Mr. Goldsborough: Mr. Mitchell, the Comptroller's view is this: He thought that chain banking was an unmixed evil; that they ought to be abolished; that in certain instances, group banking was preferable to unit banking, but branch banking was preferable to either one of the three systems.

Now, have you any definite feeling about this group banking which is developing, particularly in the Northwest? What is your reaction to that economic development?

Mr. Mitchell: I think it well has its place; that it is unquestionably in the public interest; and as to what the outcome of it is to be, where it is to lead us, I feel content to await developments.

Mr. Goldsborough: You do not feel that it is necessary and proper to take such action as can be taken to stop group and chain banking where it is?

Mr. Mitchell: No, I do not.

Mr. Goldsborough: Until we can find out just what they are going to develop into? You think it is all right to let nature take its course, as I might say?

Mr. Mitchell: That is my feeling.

On the question of extension and control of branch banks, the following colloquy ensued:

Mr. Seiberling: As long as some states do not want an extension of branch banking, because their banking experience has been nearly 100 per cent, and other sections of the country need it very badly, I take it that is the reason why you have suggested that the matter of extension of branch banks should be left largely in the hands of the Comptroller?

Mr. Mitchell: No; I have not had that particularly in mind. I feel that with respect to branch banking, it is worthy of being tried out by some further extension than we are permitted at the moment, allowing the public interest to determine, as time goes on, whether further extensions are desirable.

Mr. Seiberling: Well, to get back to the other point, since it is difficult to determine the area in which branch banking should be permitted, if the Comptroller had authority to permit branch banking, it would naturally follow he would permit it only in areas where it was desired and would not permit it in areas where it was not wanted, and that would meet the public demand, would it not?

Mr. Mitchell: I doubt if the powers of the Comptroller should be quite as broad as that; I think that the areas must be stated in some legislation.

Mr. Seiberling: Now, that is what I am getting at. Your idea, then, is that the area should be stated in some manner; that the Comptroller should be given authority within those areas to permit branch banking?

Mr. Mitchell: Quite so.

Mr. Seiberling: You think branch banking should always be permitted to the same extent that states permit it?

Mr. Mitchell: Yes; I feel that very strongly.

Turning to the great disparity in money rates at the present time as compared with a year ago the Committee asked whether the banking system was not at fault in permitting such fluctuations to take place.

Mr. Mitchell: It is an absolutely necessary thing that they do exist. Rates are like the clinical thermometer or register; they show the condition of the patient from time to time. If you tried to stultify the movement of rates and make them artificial, you would be unable to get a gauge of the situation existing at any particular time. There should be freedom of rates. When credit is plentiful, the interest rate is going to show it, and when the use of credit is being overdone, the interest rate is going to show it—it becomes a red flag.

The Chairman: You recognize, do you not, that it is within the power of the Federal reserve system to check that?

Mr. Mitchell: Not altogether. The high rates that existed a year ago did not exist in so-called commercial loans at all. As you know, the commercial rate was from 4½ to 6 per cent, while at the same time collateral loans on call were jumping from 10 to 20 per cent. Bankers like to keep their own portfolios balanced; no banker is going to lend all of his funds in the call market regardless of the rate existing in the call market. He must take care of his commercial customers if he is going to continue to do business. Now, if the bankers are aiming to maintain a balanced portfolio for themselves and have enough of collateral loans and enough of call money in their portfolios, and there comes a demand for additional call money, those bankers are not going to the Federal Reserve and rediscount to get it unless there is some incentive given them through the interest rate to get it, and then only to a limited extent. So that rates with respect to this class of loan or that class of loan are going to vary from time to time, and you have got to expect collateral loans to carry very different rates than commercial paper and, perhaps, from time to time one will be higher and again lower.

Returning to the question of branch banking, Mr. Mitchell expressed himself as favorable to

extension of the privilege into suburban areas, as follows:

City-wide branch banking and, let us say, suburban-wide branch banking, seem to me to be so nearly alike that we have got to set up some really false lines to separate them.

My view is that branch banking has distinct advantages to the public, but that its development should be fostered with such care that we may know as we go along that the public supports its extension. I urge that we move very slowly. To go out into the suburban territory of a great city seems to me to be a logical step perhaps at this time. Take that step and let us see what the public reaction will be in the course of the next year or two.

Mr. Luce referred to the general question of whether each branch bank should be made to "pay its own board," that is, whether there might not be certain circumstances in which a large bank would feel justified in extending its facilities to serve the more remote sections even though to do so would not promise immediate profits. He described at length some of his own personal experiences in dealing with large banks and asked whether there was not some way in which the same grade of service might not be made available for the "little fellow" in his relation as depositor, borrower or investor, that the "big business" customer enjoys. In response to this question Mr. Mitchell said:

I think that a great deal has been done in this country by the investment houses in educating the small capitalist. The National City Company today does a business, in the distribution of securities, of something over two billions of dollars a year, but with respect to the issues going to the public, and I mean issues suitable for the public, our sales have run about \$3,000 to an individual. Therefore, in The National City Company we have brought about contact with a public of smaller people.

He then went on to describe the growth of the savings department of The National City Bank and inauguration of the personal loan division:

We have consistently paid less than the mutual savings bank rates of interest in that department, that "compound interest department,"—which I so named at that time because "compound interest" had a lure for every youth and would induce savings,—and we have gone on with that development to ever-increasing volume and success. It is only about eight years since that department was established, and we have to obey the clearing house regulations,—3 per cent interest as a maximum, although we are in competition all of the time with savings banks that pay from 4 per cent to 4½,—yet in New York City today we have 346,000 accounts running to a total of \$73,130,000. Where we have put this same system in some of our foreign branches and preached the benefits of thrift to people, we have gathered 163,000 additional accounts, amounting to a total of \$47,000,000. That department of our business today therefore carries 509,000 accounts and deposits of over \$120,000,000.

Mr. Beedy: Those are all compound interest accounts?

Mr. Mitchell: Yes. We have also gone after the little fellow who is forced to make a small loan, largely

on personal credit, and who has previously had little opportunity to do so except through the so-called loan sharks or the high rate industrial loan banks.

Two years ago last month, we set about to make such loans to needy people at what might be a fair interest rate, a rate that would pay its board, and we have given loans from that day at an effective rate 3 per cent lower than any known agency across this country has offered heretofore. We have made in this 2-year period 145,000 such loans, running in the aggregate well in excess of \$50,000,000. We have at the moment on our books approximately 77,000 loans of that character, running to a total of \$26,000,000.

Now, Mr. Luce, we do not yield our position to any one in the way we have beneficially affected the smaller fellow. Our bank years ago was looked upon solely as a bank for the larger interests, a bank where no one who had anything short of a pretty good sized fortune might have any contact at all, but today our bank is a bank of the people, and it gives me great pleasure to feel that we are really serving this class of the community.

Over 30 per cent of all that money loaned on those small loans has gone to pay doctors' bills and dentists' bills and hospital bills. Doesn't that give you a thrill? It gives me one.

Mr. Luce: It certainly does.

Mr. Mitchell: When I realize how many people we are keeping off of the charities and who are made self-respecting, that gives me a thrill. At the same time this service pays its board,—it is profitable.

In our compound interest department, which is the equivalent of savings, any man can get 3 per cent interest, compounded monthly, and if he ever wants to make a withdrawal, he can step up to a window and get a cashier's check. He does not have to have a checking account unless he has real need of a checking account. Now, if he wants a checking account, he can go to our commercial department, and if he has a small account, with a lot of checks on it, we make a service charge. If it is a small account, that really should not be a checking account, but ought to be where it is getting this higher interest offered to savings, we do transfer it if the depositor insists and we make a service charge. We watch the individual, and if a person wants a checking account and has apparently little use for it, but it gives him some self-respect to have it, and if it promises to be a good thing for that man, we make no charge. We have no standard rules for it, but we try to analyze every small account in our bank to the end that we can give to the small fellow all the advantages that the larger capitalist has and to always extend a helping hand.

Now, Mr. Luce, one more thing. No one can handle that business of compound interest or that business of personal loans—and I can point to several other phases of banking of which the same thing is true—unless they do it on a mass production basis. A little unit bank cannot do it. I do not know whether it can be done through the group system, or not, but I know that handled as we are handling it, it is possible to give to the public something that they cannot possibly get out of the existing unit system.

Mr. Mitchell: If I may go one step further—and I feel I should apologize for the time I am taking at this late hour—I conceive that the small public need fiduciary service perhaps more than any other stratum of the public. You and I know that the trust companies are not able to handle small trust business under the methods that have been employed, and make a dollar out of it. The result is that trust companies have not urged the appointment of corporate executors and trustees in cases where the estates are very small. Now, I have contended that we must find a way, if we are going to serve the public, of giving to the small fellow all the advantage we can possibly give to the large personal trust or the large estate. We are trying to solve that problem through what we call the uniform trust. I do not know that we are going to do it, but I think we are.

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